CLEVELAND PUBLIC LIBRARY
BUSINESS INF. BUR.
CORPORATION FILE
72 Annual Report

On Saturday,
November 18, 1972,
in Atlanta,
Mrs. Anthony Netter
bought six pairs
of children's socks,
a paring knife,
and a blue pants suit
with white piping.
At about
the same time...

...in Miami, Mrs. Martha Anderson and her two youngsters, Bob and Lisa, selected an electric typewriter, a pair of shoes for Lisa, and a six-piece set of glassware. Her husband, Walt, was browsing in the hardware department while their car was being serviced.

It was a typical day for Zayre, with millions of customers shopping in our more than two hundred stores for a vast range of products. To satisfy our customers' needs—and to do it profitably—requires planning, coordination, and precise execution.

This Annual Report describes some of the forces involved in this intricate system of mass distribution.

CLEVELAND PUBLIC LIBRARY
BUSINESS INF. BUR.
CORPORATION FILE

Zayre Annual Report 1972 financial highlights

	1972	1971
Net Sales	**$939,710,000**	$801,101,000
Income before Federal Income Taxes	**17,250,000**	17,717,000
Net Income	**10,550,000**	10,017,000
Working Capital	**116,462,000**	100,088,000
Shareholders' Equity	**99,539,000**	88,234,000
Net Income per Common Share:		
Primary	**$2.15**	$2.06
Fully Diluted	**$2.05**	$1.95

Annual Meeting

The 1973 annual meeting will be held at 11:00 A.M. on Tuesday, June 5, 1973, in the Forum Room, State Street Bank and Trust Company, 225 Franklin Street, Boston, Massachusetts.

Contents

letter to shareholders: april 2, 1973

For your Company, 1972 was a year of substantial improvement in operations, organization and sales. Our stores served more customers than ever; equally important, we enlarged our assortments which broadened our appeal as a major suburban center for convenience general merchandise. Net earnings after taxes, although below our goals, were the highest in our history.

Net sales totaled $939,710,000, a gain of 17.3% over 1971. The year's volume increase of $138,609,000 was the largest we have ever recorded and indicates that during 1973 we will pass the one billion dollar sales milestone—just 17 years after the founding of the first Zayre store in 1956.

Net income amounted to $10,550,000, compared to $10,017,000 last year. Primary net income per common share was $2.15, compared to $2.06 in 1971. It is to be noted that a lower tax rate, due primarily to investment tax credits, offset a modest decline in pre-tax profits.

Shareholders' equity rose to $99,539,000, compared with $88,234,000 a year ago and, on a per share basis, reached $20.15, compared to $17.98 in 1971. Working capital, the financial base of the Company's continued growth, now stands at $116,462,000. During the past year, there was a further improvement in the balance sheet ratio of long-term debt to equity.

In an inflationary economy, a store must increase volume over the years to stay profitable. During 1972, Zayre's management undertook a sales development effort to counter inflation and to achieve a marked improvement in the sales of existing stores.

Our effort was successful. However, support of this program during its introduction in 1972, as well as the restraints imposed by Phase II price controls, put pressure on merchandise margins and held our net profits to a lower level than we had planned.

Nevertheless, the soundness of our thinking is already manifesting itself. By the end of 1972, we experienced a higher sales tempo than we had enjoyed earlier, and that pace has continued into the current year. This makes the outlook for 1973 prom-

ising. With strict control over expenses, the continuation of large volume gains in our existing stores in the months ahead should result in reduced expense ratios and increased income, even at level gross margins.

Over the past decade, discount retailing has made remarkable strides in the United States. Today, it accounts for some $30 billion in annual volume and is the largest factor in the distribution of general merchandise, surpassing even conventional department stores. Obviously, it is healthy for Zayre to be operating in such a large market. On the other hand, the very success of discount retailing has brought about changes in its nature, changes which we take into account in establishing corporate policy.

The growth of competition among discount stores has made the business considerably more promotional than it once was. We are fortunate, because anticipating this development, we have clustered our stores in the major markets we serve. Clustering provides a large enough sales volume in most markets to make sustained advertising economically feasible. Today, newspapers in each of our many markets carry the Zayre story to millions of customers on a week-in, week-out basis.

Efficiently run stores are more important than ever. We are reaping the benefits of the heavy investment we made over the past few years in the establishment of a strong regional field organization. Each of our eight regional managers has responsibility on a profit center basis for the performance of 25 to 35 stores. The regional staffs have consistently demonstrated an ability to assist store managers in raising the standards of store performance and customer service and in more fully developing each store's sales potential.

Well-merchandised stores enjoy a real competitive advantage. Good merchandising involves not only the replenishment, display, and promotion of current assortments, but also the constant testing of new products, price lines and categories in order to expand the store's business. The support afforded by our regional organization is encouraging our merchandising staff to be more aggressive. The result is a steady stream of new merchandise programs that help to generate consumer excitement. Over the past two years, we've made great strides in the merchandising of durables and other non-apparel departments, matching our traditional strength in apparel and thereby achieving a more rounded overall store appeal.

We are determined to increase the level of profits earned by your Company. Our entire organization is geared to this objective. Accordingly, our primary emphasis will be upon the more efficient operation of our existing Zayre stores and further development of their volume. At the same time, we will continue to add stores in the major markets we serve and to penetrate the medium and smaller markets adjacent to, and between our major markets. During 1972, we opened 31 Zayre stores, the largest number ever, bringing to 232 the number in operation at year end. We anticipate opening about 20 Zayre stores in 1973.

Last year, we were saddened by the passing of one of our trusted advisors, Morris Natelson, a managing director of the investment banking firm of Lehman Brothers, who had served on our board of directors for a decade. He played a key part in helping us finance the remarkable growth of the Company from the time it first issued shares to the public in 1962.

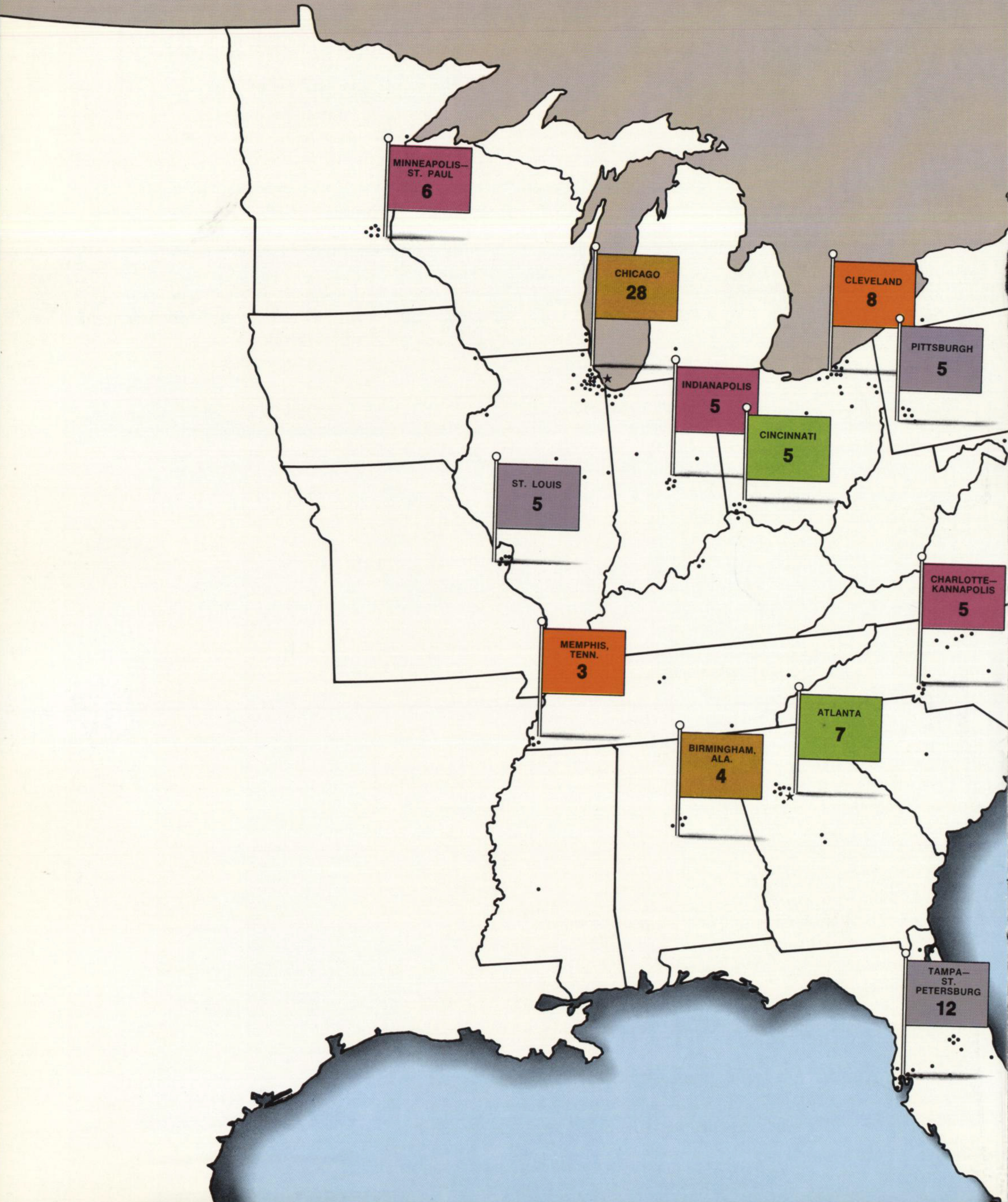
Two outstanding men joined our board this past year. Preston Breed, senior vice president of Boston's State Street Bank and Trust Company, is a nationally acknowledged expert in both real estate and commercial banking. Vincent C. Ziegler, chairman of the board of The Gillette Company, brings to us an unsurpassed expertise in manufacturing and marketing.

Above all, we pay tribute to the 27,500 members of the Zayre organization. Their loyalty, competence and zeal have sparked the Company's growth, and give us high confidence for even greater success in the future.

Respectfully submitted,

Max Feldberg
Chairman

Stanley H. Feldberg
President


MINNEAPOLIS—ST. PAUL
6
CHICAGO
28
CLEVELAND
8
PITTSBURGH
5
INDIANAPOLIS
5
CINCINNATI
5
ST. LOUIS
5
CHARLOTTE—KANNAPOLIS
5
MEMPHIS, TENN.
3
ATLANTA
7
BIRMINGHAM, ALA.
4
TAMPA—ST. PETERSBURG
12

★ Distribution Centers
• Zayre Stores

major store concentrations

State	Discount Department Store Operations
Alabama	4
Connecticut	6
Florida	35
Georgia	9
Illinois	27
Indiana	11
Iowa	1
Kentucky	3
Maine	8
Maryland	8
Massachusetts	34
Michigan	1
Minnesota	7
Mississippi	1
Missouri	5
New Hampshire	1
New York	3
North Carolina	11
Ohio	19
Pennsylvania	7
Rhode Island	10
South Carolina	1
Tennessee	7
Vermont	1
Virginia	10
Wisconsin	2
Total Units as of January 27, 1973	**232**

financial and operating report

Profile of the Company. The major business of Zayre Corp. is the operation of a chain of self-service, convenience, general merchandise, discount department stores. While the typical Zayre store has 76,000 square feet, they range in size from 45,000 to 130,000 square feet. Virtually all are one-floor stores, with approximately 77% of the space devoted to selling area.

There are close to 100 different merchandise departments in each store—ranging from apparel to non-apparel convenience merchandise, and on to durable goods—serving virtually all of the clothing, home, and recreational needs of the family.

For the most part, Zayre stores are located within suburban strip shopping centers, which have easy accessibility, generous shopping hours and ample free parking. Zayre is usually the major tenant in these centers, which generally also include a food supermarket and a drugstore. Some Zayre stores are free-standing; others are part of large, regional mall shopping centers.

Our 232 discount stores aggregate 17,650,000 square feet of gross area. 200 are clustered in 32 major metropolitan markets in the eastern half of the nation. The remainder are in 32 smaller communities. (See map on page 4.) The total population of these markets is some 50 million, or approximately 25% of the nation.

Originally centered in New England, Zayre today derives approximately 36% of its revenues from the Northeast, 39% from the Midwest, and 25% from the Southeast.

Zayre also operates several specialty-store chains, which in the aggregate represent less than 10% of the Company's total sales. They are described more fully on the next page.

Quarterly Results. Comparative quarterly sales and earnings were:

1972

Quarter	Sales	Earnings	Per Share
First	$184,022,000	$ 1,046,000	$ .21
Second	220,103,000	2,042,000	.41
Third	225,561,000	2,417,000	.49
Fourth	310,024,000	5,045,000	1.04
	$939,710,000	$10,550,000	$2.15

1971

Quarter	Sales	Earnings	Per Share
First	$159,529,000	$ 750,000	$ .15
Second	187,435,000	1,499,000	.31
Third	198,329,000	1,949,000	.40
Fourth	255,808,000	5,819,000	1.20
	$801,101,000	$10,017,000	$2.06

Federal Income Taxes. Our effective tax rate was 38.8% in 1972, compared with 43.5% in the prior year. Virtually all of the Company's 1972 capital investment program qualified for the 7% investment tax credit. This amounted to $1,400,000—29¢ per share—compared with $720,000—15¢ per share—in 1971. The investment tax credit has been consistently reported as a reduction of the current provision for federal income taxes.

Inventories. The improvement in our inventory management techniques is reflected in this year's results. Year-end inventory totaled $169,121,000, up only 6.2% on our 17.3% sales increase. The ratio of sales to year-end inventory was 5.6, compared with 5.0 last year.

This result should be viewed against the tendency for inventory turnover to gradually diminish as our merchandise mix takes on an increased proportion of such categories as hardware, domestics, and shoes, which have slower rates of turnover than does apparel.

Budgeting. Budgeting has become a way of life at Zayre: all levels of management are involved, and their participation leads to commitment.

All stores, regions, merchandise and administrative groups prepare detailed budgets for their operations. The Budget Department coordinates these forecasts and monitors the actual results.

The budgeting process establishes an awareness of expense control throughout management, and harnesses all groups within the organization to the same commonly understood goals.

Working Capital. This important measure of corporate liquidity increased from $100,088,000 to $116,462,000, and the year end current ratio was 2.15.

Working capital is adequate to support the contemplated store expansion program, and we have no present need for additional long-term financing. For seasonal requirements, the corporation maintains unsecured lines of credit with a group of 11 banks in the amount of $60 million.

The Leasing Subsidiaries. Zayre Leasing Corporation, a wholly-owned subsidiary, provides the financing for all fixture requirements. During 1972, it placed a total of $15,840,000 in term financing with various banks and retired a total of $7,646,000 in existing debt.

The amount of new term debt that Zayre Leasing Corporation placed in 1972 is substantially related to the 31 Zayre stores opened during the year, and to the installation of equipment in our new Mansfield distribution center. We anticipate that the amount of new term debt to be placed by Zayre Leasing during the coming year will more closely approximate the amount of debt to be retired.

The wholly-owned Zayre realty subsidiaries own three of our distribution centers and 18 properties which include Zayre stores as their principal tenant. Zayre Corp. also has a 50% interest in a real estate development company which owns 24 shopping centers in which Zayre is the principal tenant.

Two of the Zayre stores opened in 1972 and the Mansfield distribution center were sold and leased back under long-term arrangements.

Credit Operations. Zayre stores provide customers with a variety of credit programs. All offer instalment time sales plans—financed by others—in connection with the purchase of appliances and other big-ticket items. Most stores also offer revolving credit programs, either through bank credit card plans or through a Zayre credit card financed either by Zayre or by an outside firm.

Zayre Credit Corporation, a wholly-owned subsidiary organized to purchase and finance receivables in those markets where we operate a revolving credit plan, completed its first year of operation. At the end of the fiscal year, Zayre Credit owned $14,421,000 in receivables and had a total capitalization and subordinated debt of $2,200,000.

Specialty Store Operations.
Hit or Miss-Promotional Apparel Stores. This group of high volume promotional fashion apparel stores has an existing format well executed by a sound management team. 10 new units were opened in 1972, bringing to 33 the number in operation at year end. 17 new units are scheduled for 1973, including many in Connecticut and New Jersey, new areas of development for this operation. In the three years since Hit or Miss joined Zayre Corp., it has tripled its sales and earnings and we hope to continue the same type of rapid growth in the period ahead.
Beaconway-Fabric Stores. 14 units were opened in 1972, and 42 were in operation at year end. Fabric retailing is undergoing a period of readjustment due to certain fashion changes, the price collapse in double knits, and an explosive growth in fabric outlets. Pending the return of more stable conditions, we plan to limit new commitments in this field.
Bell/Nugent-Apparel Stores. A dynamic new management team assumed direction of this group of 54 women's apparel stores in 1972, and has already made major changes in both store format and merchandise composition. Plans are now being developed for a new apparel store prototype to be located in enclosed mall shopping centers and featuring better junior sportswear.
Spree!-Toy and Leisure-Time Stores. We have taken steps to improve the profitability of this group of stores. In 1972, we sold the five Ohio units, leaving six in New England. A new management has reduced overhead radically and is moving the operation forward satisfactorily.
Zayre Gasoline Stations. High-volume shopping center locations and self-service stations are two major developments in retail gasoline marketing.

It is also clear that there will be a gasoline shortage for some time to come. For this reason, in 1972 we arranged with Research Fuels, Inc. of Houston, Texas, to organize a joint venture, equally owned, to assume the operation of the 82 Zayre gasoline stations.

Distribution Network. In August, 1972, we opened a new distribution center in Mansfield, Mass. This automated 486,000 square-foot facility is designed to handle 20,000 cartons of merchandise in a single shift. It will serve the needs of our stores in the Northeast for carton-type merchandise, as similar distribution centers in Chicago, Atlanta, and Miami serve their respective areas.

In addition, in New York City, we operate a large facility servicing fashion apparel for all stores. Our Framingham, Mass. center, now that it has been relieved by the opening of Mansfield, will service our growing shoe volume as well as the needs of other specialized departments.

All six centers and our merchandising offices are interconnected through a computer network, which enables them to move and bill merchandise rapidly.

New Officers. Since the issuance of our last annual report, the following promotions and elections were made by the Board of Directors:

to Vice President:

David Banker—*Merchandising*
Robert Bozeman—*Management Information Systems*
Samuel Greenberg—*Merchandising*
Karam Skaff—*Merchandising*
Warner Strauss—*Distribution Services*
J. Gerald Sutton—*Corporate Personnel*

to Assistant Vice President:

Hershel Denker—*Business Planning*
Ronald Hirshberg—*Merchandising*
Rudolph Hunter—*Regional Manager*
John Johnson—*Controller*
Richard Johnson—*Real Estate*
William McCabe—*Real Estate*
William Smith—*Merchandising*

Zayre· the anatomy of a distribution system

What is Zayre?
232 stores? 27,500 people? Over 100,000 items of merchandise? Nearly two million square feet of supporting warehouse space?

It's all of these, and more, for all are part of the vast Zayre distribution network.

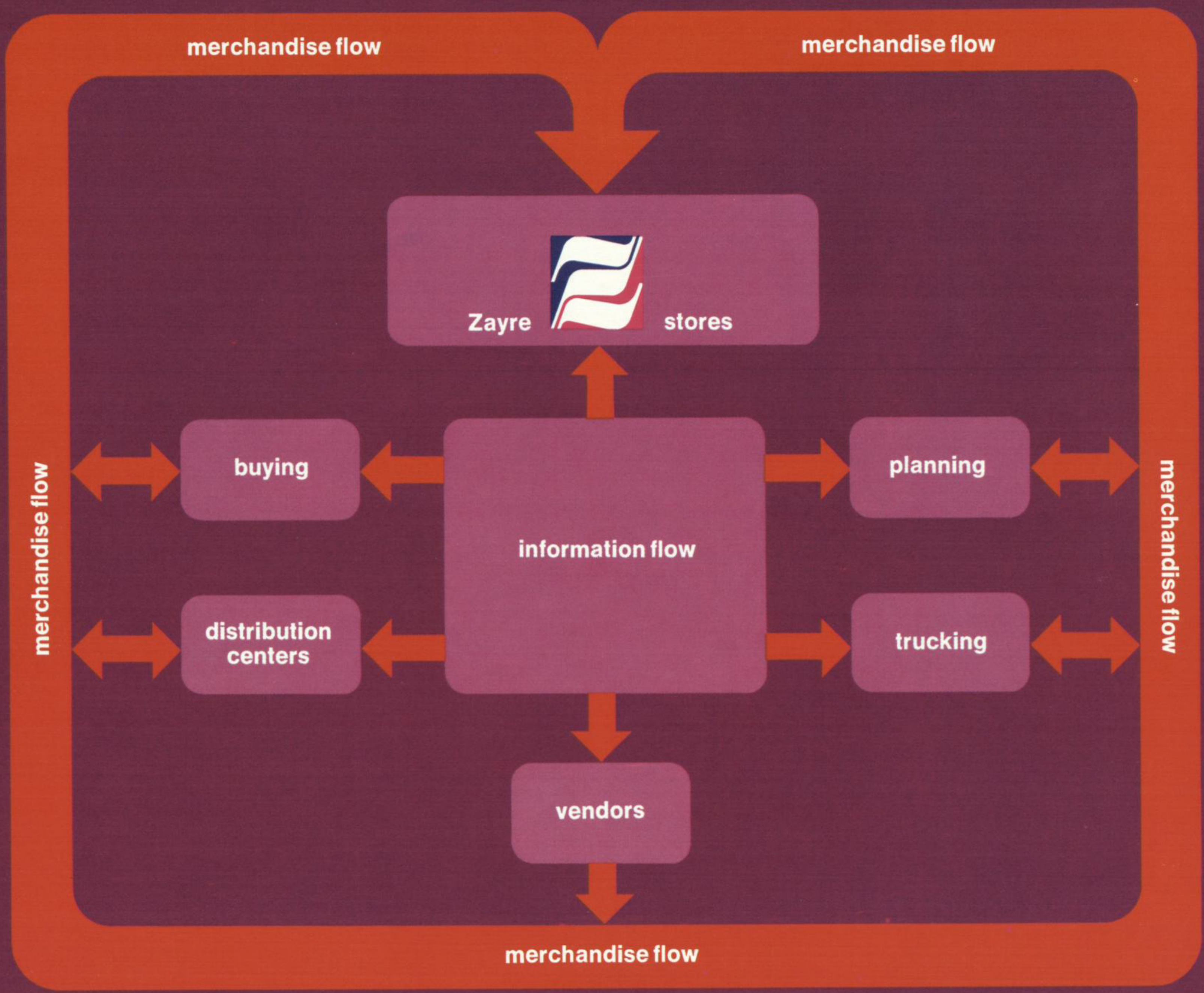
At one end of the system are the buyers who select and style the merchandise assortments. At the other end are the store organizations which present the merchandise conveniently and attractively.

Connecting them is a central organization staffed with skilled specialists in a wide range of related disciplines. They are supported by an extensive capital investment in items ranging from store fixtures to information-processing equipment, all designed to help them optimize return on investment.

What is Zayre?
It's an efficient system for distributing vast assortments of wanted merchandise to customers in hundreds of locations, all of whom expect high value at low prices.

The sketch on the facing page suggests how the major components of this distribution system interrelate with one another and with our customers.

And the pages that follow describe how Zayre people make the distribution system an effective—and profitable—reality.


merchandise flow
merchandise flow
Zayre
stores
buying
information flow
planning
distribution centers
trucking
vendors
merchandise flow
merchandise flow
merchandise flow

information · the lifeblood of a distribution system

On a Monday morning, a Zayre merchandising executive in New York City reads a freshly printed computer printout: ladies' cuffed slacks shipped the previous week have suddenly started to sell heavily.

The executive spots a trend: cuffed slacks are selling more rapidly than expected. Reacting immediately, she changes her planned inventory proportions: instead of ordering 60% uncuffed slacks and 40% cuffed slacks, the ratio is reversed: 40% uncuffed, 60% cuffed.

The example is hypothetical, but the principle is basic: at Zayre, actions are based on information, especially immediate, detailed information on the sales of every style we carry.

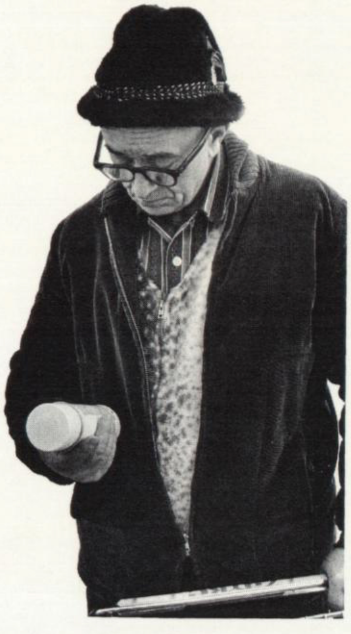
At the heart of our information network is a large-capacity IBM 370/155 computer, linked to smaller computers in each of our distribution centers.

Each night, when our WATS telephone lines are inactive, computers call stores; paper-tape readers "answer" and transmit itemized data from cash register tapes of that day's sales.

We are constantly refining our information systems. Two typical recent examples:

More Details, More Profits: We have installed a new computer system that analyzes—for each department within the store—its cost of inventory investment, shipping, warehouse handling and certain related expenses. Buyers can now determine more accurately what combination of routings and buying terms will achieve the optimum gross profit on each item.

Optical Scanning: An optical scanner reads human handwriting and translates it into computer language. It is faster, more accurate, and more economical than conventional keypunch input. This year we have greatly expanded the application of optical scanning to new areas of our business, including inventory-taking, the recording of price changes, and processing vendors' invoices.



SAR/IC
STORAGE SELECT
FULL LTH
LQPT CHK
DRIV A
BYTE 0
BYTE 3
CAX RTN
6-15-70
Zayre 6,590
HOME OFFICE PRICE CHANGE AUTHORIZATION & REPORT
INSTRUCTIONS:
Indicate number of units actually counted for each style no. in "Store Use Total No. of Units" column. If none enter "0".
Erase handprinting—DO NOT LINE OUT.
If preprinted prices are DIFFERENT from your store's regular retail, or if your store has SUBSTITUTED items, enter "X" in units column and prepare a store RPC, referencing authorization number.
1. All Ticket Prices MUST BE CHANGED IMMEDIATELY on effective date, as per Company Policy on all merchandise in stock for styles listed above.
2. All merchandise priced upward (markup or markdown cancellation) must be reticketed.
3. Consider multiple-selling items as
SPECIAL MESSAGE
USE FOR EVENT B-1
DATE ISSUED
01 24 73
MENS SWEA
MKUP-CANCL
DESCRIPTION
L/S KNITDRESS SHIRT
L/S KNITDRESS SHIRT
L/S KNITDRESS SHIRT
L/S KNITDRESS SHIRT
L/S KNITDRESS SHIRT
CATEGORY
3600 151
3600 151

merchandise planning: the eyes and ears of distribution

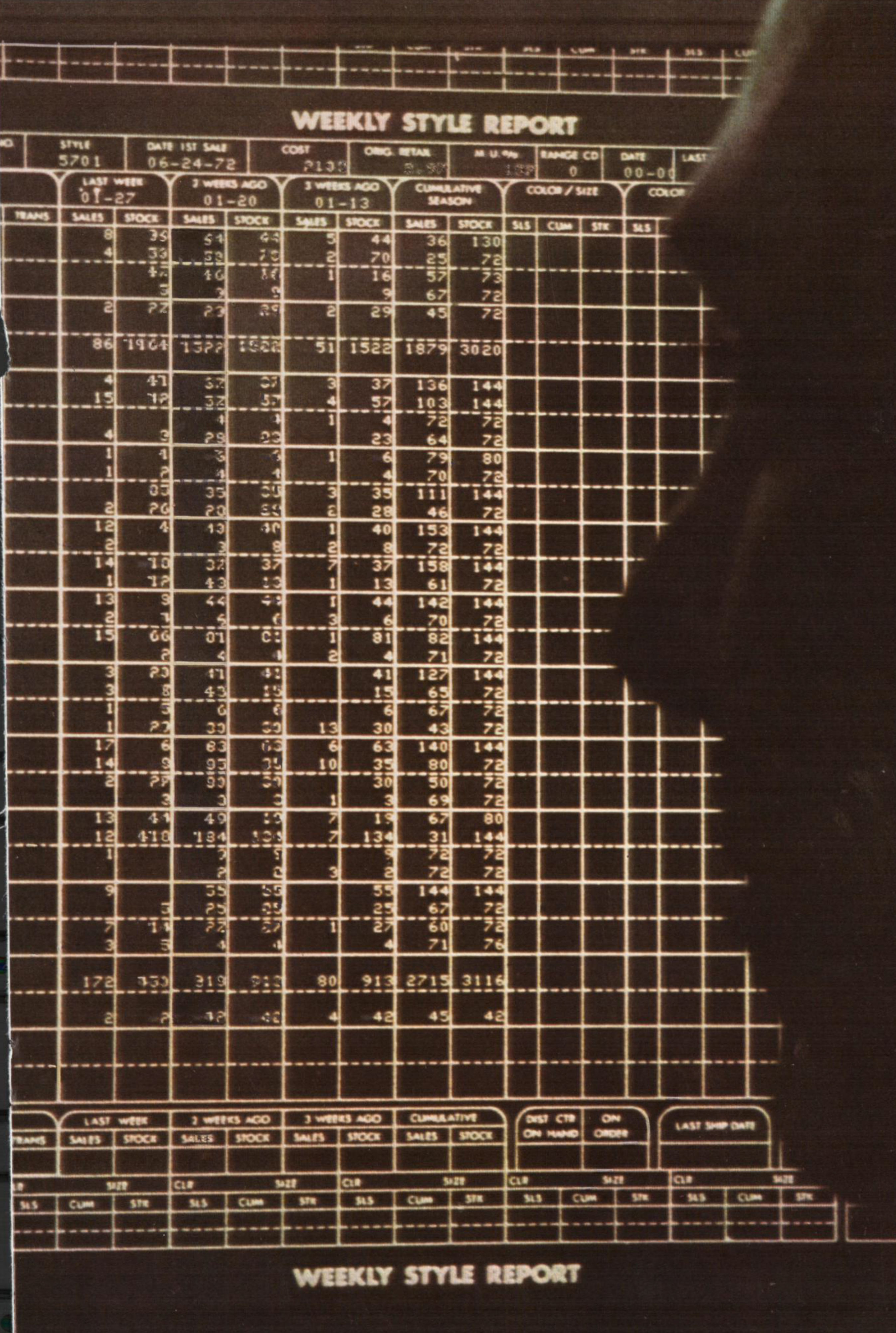
Good inventory management requires the retailer to strike a delicate balance: enough merchandise to satisfy customer needs, with minimal amounts of left-over stock.

A staff of some 200 merchandise planners oversee this task. They review past and present trends, develop dollar budgets for sales and inventory, and allocate items to the stores. Then, as the season unfolds, they react to actual sales by adjusting the flow of goods.

Each planner is a specialist in a merchandise category, such as women's dresses, or hardware, or toys. Each also specializes in one geographic area of our operation, so that he—or she—may become familiar with the characteristics of the stores and the buying preferences of customers in the area.

As society's interests and values change, so also do the assortments of merchandise in our stores. Our Leisurecraft experience is an excellent example.

In recent years, Americans have increasingly taken up avocations through which they can express themselves manually and artistically. This past year, we began installing departments that provided the materials for these interests. And suddenly, we had a new and profitable source of business. During the last three months of 1972, we sold 250,000 of these items, at an average retail price of $2.99. As a small footnote which may be of interest to social historians, our most popular sets were candle-making, découpage, bottle cutting, stitchery and needlework.


WEEKLY STYLE REPORT
STYLE
5701
DATE 1ST SALE
06-24-72
COST
ORIG. RETAIL
M.U.%
RANGE CD
0
DATE
LAST WEEK
2 WEEKS AGO
01-20
3 WEEKS AGO
01-13
CUMULATIVE SEASON
COLOR / SIZE
TRANS
SALES
STOCK
SLS
CUM
STK
DIST CTR ON HAND
ON ORDER
LAST SHIP DATE
CLR
SIZE
WEEKLY STYLE REPORT

buying · the pulsebeat of the distribution system

Zayre's 75 buyers are experts. Each must know product sources, construction, pricing, and style trends, and be sensitive to changing consumer preferences in color, style and materials.

The buyer must select and style an appealing assortment—a task that involves both art and science.

The magnitude of our requirements means that the buyers must often commit themselves almost a year in advance.

The risks—and rewards—are substantial. Two examples from 1972.

Hot Comb Success: We anticipated that hot combs would be in great demand for Christmas gifts. So, in addition to a huge national brand commitment, we contracted to buy thousands of additional hot combs, made expressly for Zayre. They had all the features of the national brands, at a much lower retail. Result: substantial plus volume, and a complete sell-out.

Million-Dollar Tent: Last year, working with our principal tent supplier, the buyer designed an improved version of a tent and screen-house which incorporated two new windows, a floor, roll-down flaps to turn the screened area into a bedroom, and a striped roof for a continental topping.

A large order—to be produced out of season—enabled him to get them at a very low price. The tents sold for $99.00—$40 less than comparable models sold by competing retailers. Shoppers snapped up more than 10,000 of them—a sales record.

logistics • the movement of merchandise in the system

Zayre customers find shoes from New Hampshire, pants from Texas, trivets from Spain and sewing machines from Japan—some 100,000 items from all states of the Union, all parts of the world.

Managing merchandise movement profitably and efficiently is the challenge of the men and women of our Distribution Services department.

They calculate not just the least expensive method of moving freight, but also the way which will yield the optimum gross profit. We regard our six distribution centers as processing plants that contribute to our efficiency by enabling us to improve store replenishment, consolidate freight, and inspect and ticket merchandise.

Two concepts innovated last year:

Holding the Line on Freight: Although freight rates increased greatly in 1972, the effect on Zayre was minimal. We improved the routing of our merchandise, made better use of our freight consolidators, negotiated some lower commodity rates, and concentrated on fewer carriers. As a result, we were able to move about 16% more dollar volume of merchandise with only a 7% increase in overall cost.

Flight to Florida: We formerly shipped Florida-bound women's ready-to-wear on hangers from New York to our Atlanta distribution center, where it was packed and re-shipped to our Florida stores. Last year, we began shipping fashion merchandise on hangers from our New York distribution center directly to our Florida stores. Delivery time was reduced about 35%, and shipping and handling costs about 25%.

store operations • where the customer meets the system

Store managers are totally responsible for the operation of their stores, each of which represents an investment of about $2.5 million. They handle day-to-day functions such as staffing, training, stocking merchandise, and in-store promotions; and long-range functions such as volume growth and profit planning.

Our regional organization provides support and direction for store management. The eight regional staffs focus on planning, maintenance of store standards, monitoring expenses, execution of merchandising and promotional programs, and training and development of personnel. They also make the home office aware of the merchandising needs of specific stores, which may vary because of geographic location or ethnic mix.

ZAP—or Zayre Automotive Program—initiated by our Miami region, beautifully illustrates the close relationships we try to foster. The home office committed itself to expanded inventories and enlarged advertising. The regional office and its stores committed themselves to improved supervision and better personnel coverage. The result was higher volume and profitability in these departments, and ZAP is being expanded to the whole Zayre chain.

advertising and promotion • the edge of the distribution system

The amazing growth of discount retailing has placed a high premium on effective advertising and sales promotion programs. Zayre has met this need by building a strong in-house staff to develop and coordinate the thousands of different ads we run each year.

A large portion of our budget is devoted to full-color, rotogravure circulars, each listing between 200 and 300 on-sale items. Generally inserted in Sunday papers, each edition reaches the homes of millions of customers.

Continuity is provided by advertising scheduled for inclusion in daily newspapers in all of our market areas. Typically, we use full-page ads which feature the merchandise offerings of specific departments.

We also use radio and television advertising selectively, to support our current advertising themes, and to develop additional acceptance for the Zayre name.

A blizzard of promotional pieces, posters, banners and signs, reinforce our advertising message at store level. Major appliances and other durable big-ticket items carry "fact tags"—silent salesmen which provide helpful product and price information.


OVE
spring savin
Zayre believes in

market development • the system in search of tomorrow

Tomorrow's customers: will they commute between city and suburb? Or will they live and work in self-contained communities? Will they be richer or poorer? Will there be fewer family units? More single units? Will they be younger? Older? We are asking these questions now, because we know that as our population changes, so will its buying patterns.

Our Market Development department, whose primary job is to help us locate new stores, is also responsible for much of this research. In surveying an area, they analyze many factors, such as traffic conditions, the nature of the population, and the presence of competition.

Information developed by Market Development studies has played an important role in helping us cluster our stores within metropolitan areas, thereby giving us the distribution and advertising advantages mentioned earlier in this report.

This work has also helped us to broaden our merchandise assortments. Strengthening our selection of higher-priced hard goods helps to attract more male customers and families with greater discretionary purchasing power.

In the years ahead, we plan to improve all elements of the distribution system that constitutes Zayre, so that increasing numbers of customers will come to rely on us for high-value merchandise at low prices.

consolidated statements of income and retained earnings

Zayre Corp. and Consolidated Subsidiaries

	Fiscal Year Ended	
	January 27, 1973	January 29, 1972
Net sales, excluding sales of leased departments	**$939,710,000**	$801,101,000
Cost of sales, including buying and occupancy costs	**739,027,000**	625,115,000
Selling, general and administrative expenses	**161,575,000**	138,853,000
Depreciation and amortization (Note A)	**12,438,000**	10,943,000
Interest expense	**9,420,000**	8,473,000
	922,460,000	783,384,000
Income before provision for federal income taxes	**17,250,000**	17,717,000
Provision for federal income taxes (Note A)	**6,700,000**	7,700,000
Net Income	**10,550,000**	10,017,000
Retained earnings at beginning of year	**68,474,000**	58,607,000
Dividends on Series B preferred stock	**(150,000)**	(150,000)
Retained earnings at end of year	**$ 78,874,000**	$ 68,474,000
Net income per common share (Note A):		
Primary	**$2.15**	$2.06
Fully diluted	**$2.05**	$1.95

consolidated statements of additional paid-in capital

	Fiscal Year Ended	
	January 27, 1973	January 29, 1972
Balance at beginning of year	**$ 14,881,000**	$ 10,223,000
Excess over par value of common stock issued upon:		
Exercise of options (Note F)	**727,000**	998,000
Exercise of Class A and Class B warrants		530,000
Warrants sold with sinking fund debentures		3,450,000
Other	**145,000**	(320,000)
	$ 15,753,000	$ 14,881,000

The accompanying notes are an integral part of the financial statements.

consolidated balance sheets

Zayre Corp. and Consolidated Subsidiaries

	January 27, 1973	January 29, 1972
ASSETS		
Current assets:		
Cash	**$ 31,771,000**	$ 20,914,000
Marketable securities, at cost approximating market	**5,036,000**	8,450,000
Accounts receivable	**7,865,000**	6,090,000
Merchandise inventories (Note A)	**169,121,000**	159,281,000
Prepaid expenses	**3,613,000**	3,531,000
Total current assets	**217,406,000**	198,266,000
Equity in and receivables from Zayre Credit Corporation and a fifty-percent owned real estate development company (Note A)	**4,506,000**	3,510,000
Property, at cost:		
Land and buildings	**39,959,000**	46,217,000
Leasehold costs and improvements	**17,773,000**	16,266,000
Furniture, fixtures and equipment	**80,952,000**	69,790,000
	138,684,000	132,273,000
Less accumulated depreciation and amortization (Note A)	**38,150,000**	33,350,000
	100,534,000	98,923,000
Other assets, including unamortized pre-opening costs (Note A)	**5,248,000**	5,003,000
Goodwill (Note A)	**4,880,000**	3,729,000
	$332,574,000	$309,431,000
LIABILITIES		
Current liabilities:		
Current instalments of long-term debt	**$ 10,047,000**	$ 8,993,000
Accounts payable	**65,742,000**	65,220,000
Accrued expenses and other current liabilities	**20,276,000**	19,232,000
Federal income taxes (including current portion of deferred taxes $1,900,000 and $1,400,000—Note A)	**4,879,000**	4,733,000
Total current liabilities	**100,944,000**	98,178,000
Long-term debt, exclusive of current instalments (Notes A and B):		
General corporate debt	**48,163,000**	48,776,000
Equipment promissory notes	**45,113,000**	37,230,000
Real estate mortgages	**33,310,000**	34,074,000
Deferred federal income taxes (Note A)	**5,505,000**	2,939,000
Commitments (Note C)		
SHAREHOLDERS' EQUITY (Notes B, E and F)		
Preferred stock, par value $1, authorized 1,000,000 shares, issued and outstanding 57,659 shares Series B cumulative convertible preferred stock	**58,000**	58,000
Common stock, par value $1, authorized 15,000,000 shares, issued and outstanding 4,853,717 and 4,821,273 shares	**4,854,000**	4,821,000
Additional paid-in capital	**15,753,000**	14,881,000
Retained earnings	**78,874,000**	68,474,000
	99,539,000	88,234,000
	$332,574,000	$309,431,000

The accompanying notes are an integral part of the financial statements.

consolidated statements of changes in financial position

Zayre Corp. and Consolidated Subsidiaries

	Fiscal Year Ended	
	January 27, 1973	January 29, 1972
Source of Working Capital		
Net income	**$10,550,000**	$10,017,000
Charges to income not requiring working capital:		
Depreciation and amortization	**12,438,000**	10,943,000
Deferred federal income taxes, net of $500,000 and $1,100,000 applicable to instalment receivables	**2,566,000**	1,300,000
Funds provided from operations	**25,554,000**	22,260,000
Additional long-term borrowings	**16,553,000**	36,969,000
Property disposals	**8,075,000**	509,000
Common stock issued upon exercise of options and warrants	**760,000**	1,699,000
Warrants sold with sinking fund debentures		3,450,000
	$50,942,000	$64,887,000
Application of Working Capital		
Current instalments of long-term debt	**$10,047,000**	$ 8,993,000
Prepayment of long-term debt		12,825,000
Property additions	**19,174,000**	23,949,000
Equity in and advances to credit subsidiary	**1,043,000**	2,235,000
Increase in other assets	**3,148,000**	3,620,000
Goodwill	**1,151,000**	
Other	**(145,000)**	320,000
Dividends on Series B preferred stock	**150,000**	150,000
	34,568,000	52,092,000
Increase in working capital	**16,374,000**	12,795,000
	$50,942,000	$64,887,000
Details of Working Capital Increase:		
Increase (decrease) in current assets:		
Cash	**$10,857,000**	$ 2,873,000
Marketable securities	**(3,414,000)**	3,102,000
Merchandise inventories	**9,840,000**	39,836,000
Accounts receivable	**1,775,000**	(2,392,000)
Other current assets	**82,000**	159,000
	19,140,000	43,578,000
Increase (decrease) in current liabilities:		
Current instalments of long-term debt	**1,054,000**	(3,176,000)
Accounts payable	**522,000**	25,529,000
Accrued expenses	**1,044,000**	5,628,000
Federal income taxes	**146,000**	2,802,000
	2,766,000	30,783,000
Increase in working capital	**$16,374,000**	$12,795,000

The accompanying notes are an integral part of the financial statements.

combined balance sheets

The Leasing Subsidiaries of Zayre Corp.

(Included in the Consolidated Balance Sheets—Note A)

	January 27, 1973	January 29, 1972
ASSETS		
Cash and marketable securities	**$ 6,585,000**	$ 3,887,000
Accounts receivable and other assets	**1,030,000**	932,000
Property, at cost:		
Land and buildings	**39,959,000**	46,217,000
Furniture, fixtures, equipment and leasehold improvements	**86,372,000**	73,883,000
	126,331,000	120,100,000
Less accumulated depreciation and amortization (Note A)	**34,015,000**	29,817,000
	92,316,000	90,283,000
	$ 99,931,000	$ 95,102,000
LIABILITIES		
Accounts payable and accrued expenses	**$ 3,148,000**	$ 3,355,000
Due to parent and operating subsidiaries	**96,000**	5,447,000
Long-term debt, including current instalments of $7,712,000 in 1973 and $7,414,000 in 1972 (Note B)	**86,135,000**	78,718,000
Deferred federal income taxes (Note A)	**4,187,000**	2,504,000
	93,566,000	90,024,000
PARENT COMPANY'S EQUITY	**6,365,000**	5,078,000
	$ 99,931,000	$ 95,102,000

balance sheets

Zayre Credit Corporation

(A Wholly-owned Unconsolidated Subsidiary of Zayre Corp.—Note A)

	January 27, 1973	January 29, 1972
ASSETS		
Customer instalment receivables purchased from Zayre Corp. and operating subsidiaries, net of $865,000 and $768,000 withheld pending collection	**$ 13,556,000**	$ 8,838,000
Cash and other assets	**264,000**	197,000
	$ 13,820,000	$ 9,035,000
LIABILITIES		
Short-term notes payable to banks, interest principally at prime	**$ 10,500,000**	$ 6,800,000
Accrued liabilities	**42,000**	
Due to parent company	**1,078,000**	235,000
	11,620,000	7,035,000
PARENT COMPANY'S INVESTMENT		
Subordinated demand notes, interest at prime	**1,500,000**	1,500,000
Common stock	**500,000**	500,000
Retained earnings	**200,000**	
	2,200,000	2,000,000
	$ 13,820,000	$ 9,035,000

The accompanying notes are an integral part of the financial statements.

notes to consolidated financial statements

NOTE A—SUMMARY OF ACCOUNTING POLICIES

Consolidation Policies. The financial statements of Zayre Corp. and Consolidated Subsidiaries include the financial statements of all the Company's wholly-owned operating and leasing subsidiaries but exclude the financial statements of Zayre Credit Corporation (see page 27 for balance sheets).

Merchandise Inventories. Inventories are stated at the lower of cost or market, using the retail method.

Goodwill. Goodwill represents the excess of purchase price incurred over the costs assigned to identified assets and is not being amortized. The increase during the current fiscal year resulted from a final payment of purchase price based on the achievement of a stipulated level of earnings by a company acquired in a prior year.

Depreciation and Amortization. For financial reporting purposes, the Company provides for depreciation by the use of the straight-line method as follows: buildings—33 years; leasehold costs and improvements—shorter of the lease term or estimated useful life; and furniture, fixtures and equipment—5 to 10 years.

Pre-opening costs are charged to operations over the twelve-month period following the opening of a new store or facility.

Debt discount and related issue expenses are amortized over the lives of the related debt issues. The debt discount arising from the issuance of warrants with the Company's sinking fund debentures has been classified as a reduction of the related debt.

Retirement Plan. The Company has a noncontributory retirement plan covering substantially all full-time employees who have completed three years of service. Pension expense which amounted to $861,000 and $851,000 in fiscal 1973 and 1972, respectively, includes current service costs and the amortization of prior service costs over 30 years. The Company's policy is to fund pension costs accrued.

Federal Income Taxes. Deferred federal income taxes arise from income tax and financial reporting differences, principally with respect to customer instalment receivables, depreciation and pre-opening costs. The deferral related to the instalment receivables is classified with the current federal income tax liability. The investment credit used to reduce the federal income tax provision amounted to $1,400,000 and $720,000 in fiscal 1973 and 1972, respectively.

For federal income tax purposes, the Company and all eligible subsidiaries file a consolidated income tax return.

Net Income Per Common Share. Primary net income per common share is based upon the average number of common and common equivalent shares outstanding in each year, after provision for dividend requirements on the preferred stock. Fully diluted net income per common share assumes full conversion of all convertible securities and the exercise of all stock options and warrants during the periods in which they were outstanding and were dilutive.

NOTE B—LONG-TERM DEBT

At January 27, 1973, long-term debt, exclusive of current instalments, consisted of the following:

General corporate debt:	
Promissory notes, interest at 5.8% to 7.5%, maturing July 1, 1974 to January 31, 1984	$ 2,602,000
8% sinking fund debentures, maturing August 15, 1977 to August 15, 1996 (effective interest rate of 8.9% after the reduction of the unamortized debt discount of $3,135,000)	21,865,000
Subordinated notes, interest at 5.5% to 8% and at prime, maturing August 1, 1974 to January 15, 1979	3,696,000
5¾% convertible subordinated debentures, maturing December 15, 1979 to December 15, 1994	20,000,000
	48,163,000
Equipment promissory notes, interest principally at ¼% above prime, maturing in fiscal years 1975 to 1979	45,113,000
Real estate mortgages, interest at 4½% to 10½%, maturing April 1, 1975 to January 1, 2001	33,310,000
	$126,586,000

The subordinated notes are subordinated to the promissory notes and the sinking fund debentures. The 5¾% convertible subordinated debentures are subordinated to all other general corporate debt and are convertible into common stock at $40 per share, for which the Company has reserved 500,000 shares of its common stock. The Company has also reserved 300,000 shares of common stock for warrants issued in connection with the sinking fund debentures, exercisable at $40 and expiring on August 31, 1976.

Under provisions of the agreements governing long-term debt, $25,000,000 of retained earnings was available for dividends at January 27, 1973.

While the parent company is not directly obligated with respect to the equipment promissory notes or real estate mortgages, it has guaranteed the leases which have been assigned as collateral for such debt.

NOTE C—COMMITMENTS

The Company paid minimum annual rentals under long-term leases of real property and fixtures of $27,800,000 in fiscal 1973 and $22,800,000 in fiscal 1972 and is committed to pay approximately $30,000,000 under such leases in each of the five years ending January, 1978 and declining amounts thereafter. At January 27, 1973, the Company was committed for additional minimum annual rentals of approximately $1,300,000 under long-term leases for stores to be opened during fiscal 1974.

NOTE D—LITIGATION

The Company has been named as defendant in a purported class action claiming substantial damages under the Federal Truth in Lending Act. The Company has also been named as a defendant, together with other companies, in a purported class action claiming substantial damages for a violation of Ohio law. Based on the facts presently known to them, the Company and its counsel are of the opinion that no material damages will be sustained by the Company.

NOTE E—PREFERRED STOCK

The Series B cumulative convertible preferred stock is entitled to a liquidation preference of $65 per share, or $3,748,000 in the aggregate and is redeemable, subsequent to January 30, 1974, at the option of the Company at the same price. Each share is convertible into 1.5 shares of common stock and 86,488 shares of common stock have been reserved for the conversion privilege.

NOTE F—STOCK OPTIONS AND STOCK PURCHASE PLAN

Under its Stock Option Plans, the Company has granted certain officers and key employees options for the purchase of common stock within five years from the grant date at option prices of 100% of market price on the grant date. Generally, all options are exercisable in four equal cumulative annual instalments commencing one year after the grant date. The activity during fiscal 1973 was as follows:

		Number of Common Shares Reserved for	
	Option Prices	Options Granted	Future Options
Outstanding at 1/29/72	$23.42—$38.67	194,479	172,999
Options granted	$31.50	30,400	(30,400)
Options exercised	$23.42—$25.63	(26,114)	
Cancellations	$23.42—$38.67	(23,945)	23,945
Outstanding at 1/27/73	$25.63—$38.67	174,820	166,544

Under its Executive Incentive Stock Purchase Plan, 28,970 shares of common stock were reserved at January 27, 1973 for sale at a price (not less than par value) determined by the Company, subject to repurchase options and restrictions on sales which lapse equally over five or ten years. In fiscal 1973, 6,330 shares (net) were sold for $1.00 per share under the Plan.

auditors' report

To the Board of Directors of Zayre Corp.:

We have examined the consolidated balance sheet of Zayre Corp. and Consolidated Subsidiaries as of January 27, 1973, the related consolidated statements of income and retained earnings, additional paid-in capital, and changes in financial position for the fiscal year then ended, the combined balance sheet of the Leasing Subsidiaries of Zayre Corp. and the balance sheet of Zayre Credit Corporation, an unconsolidated subsidiary of Zayre Corp., as of January 27, 1973. Our examinations were made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances. We previously examined and reported upon the above financial statements for the fiscal year ended January 29, 1972.

In our opinion, the aforementioned financial statements present fairly the financial position of Zayre Corp. and Consolidated Subsidiaries, the Leasing Subsidiaries of Zayre Corp. and Zayre Credit Corporation at January 27, 1973 and January 29, 1972 and the results of operations and changes in financial position of Zayre Corp. and Consolidated Subsidiaries for the fiscal years then ended, in conformity with generally accepted accounting principles applied on a consistent basis.

Coopers + Lybrand

Boston, Massachusetts
April 2, 1973

ten-year summary

Fiscal Year Ended Last Saturday in January	**1973**	1972
Operating Data:		
Net sales, excluding sales of leased departments	**$939,710,000**	$801,101,000
Income before federal income taxes	**$ 17,250,000**	$ 17,717,000
Net income	**$ 10,550,000**	$ 10,017,000
Average number of common shares outstanding	**4,846,017**	4,779,611
Net income per common share:		
Primary	**$2.15**	$2.06
Fully diluted	**$2.05**	$1.95
Stores in Operation:		
Self-service Department Stores	**232**	204
Apparel Specialty Shops	**54**	57
Fabric Shops	**42**	29
Gasoline Stations	**82**	68
Discount Food Supermarkets	**9**	9
Discount Toy Stores	**6**	11
Promotional Ladies' Apparel Stores	**33**	23
Financial Position:		
Current assets	**$217,406,000**	$198,266,000
Current liabilities	**$100,944,000**	$ 98,178,000
Working capital	**$116,462,000**	$100,088,000
Shareholders' equity	**$ 99,539,000**	$ 88,234,000
Number of common shares outstanding at year end	**4,853,717**	4,821,273
Equity per common share	**$20.15**	$17.98

1971	1970	1969	1968	1967	1966	1965	1964
$686,337,000	$602,542,000	$492,649,000	$416,924,000	$347,485,000	$280,246,000	$213,911,000	$169,530,000
$ 14,981,000	$ 16,452,000	$ 18,338,000	$ 14,974,000	$ 14,410,000	$ 11,656,000	$ 7,482,000	$ 3,252,000
$ 7,663,000	$ 8,652,000	$ 9,538,000	$ 8,474,000	$ 8,110,000	$ 6,656,000	$ 4,370,000	$ 1,993,000
4,637,579	4,595,813	4,319,079	4,235,577	4,147,026	3,754,230	3.725,803	3,725,175
$1.62	$1.85	$2.10	$1.88	$1.87	$1.69	$1.09	$.45
$1.54	$1.78	$1.99	$1.78	$1.75	$1.49	$1.04	$.45
179	153	131	115	96	83	72	64
51	48	46	45	40	41	43	46
18	7	6	5	—	—	—	—
50	37	32	21	13	4	2	—
8	8	5	4	—	—	—	—
9	—	—	—	—	—	—	—
17	—	—	—	—	—	—	—
$154,689,000	$136,183,000	$ 99,397,000	$ 80,665,000	$ 67,509,000	$ 54,446,000	$ 36,236,000	$ 33,111,000
$ 67,395,000	$ 55,833,000	$ 46,938,000	$ 38,002,000	$ 33,499,000	$ 25,418,000	$ 19,806,000	$ 18,996,000
$ 87,294,000	$ 80,350,000	$ 52,459,000	$ 42,663,000	$ 34,010,000	$ 29,028,000	$ 16,430,000	$ 14,115,000
$ 73,538,000	$ 65,516,000	$ 56,328,000	$ 46,739,000	$ 36,790,000	$ 23,747,000	$ 14,908,000	$ 11,695,000
4,650,393	4,615,854	4,569,616	4,283,449	4,169,322	3,795,205	3,730,110	3,725,175
$15.52	$13.93	$12.10	$10.09	$8.31	$5.85	$3.78	$2.92

directors and officers

Directors

Max Feldberg	*Chairman**	Walter J. Salmon	*Professor of Marketing, Harvard Graduate School of Business Administration*
Stanley H. Feldberg	*President**	N. Preston Breed	*Senior Vice President, State Street Bank and Trust Company*
Sumner L. Feldberg	*Executive Vice President**	Vincent C. Ziegler	*Chairman of the Board, The Gillette Company*
Newton A. Lane	*Partner, Nathanson & Rudofsky*		
Milton L. Levy	*Senior Vice President**		
Burton S. Stern	*Senior Vice President**		

*member of the Executive Committee

Officers

Max Feldberg	*Chairman*		
Stanley H. Feldberg	*President*	Sumner L. Feldberg	*Executive Vice President*
Burton S. Stern	*Senior Vice President, General Merchandise Manager*	Milton L. Levy	*Senior Vice President, Real Estate*
Joel Jacobson	*Senior Vice President, Sales/Operations*	Paul Kwasnick	*Senior Vice President, Finance and Treasurer*

Vice Presidents

David Banker	*Merchandising*	Karam Skaff	*Merchandising*
Robert Feinberg	*Merchandising*	Robert Bozeman	*Management Information Systems*
Samuel Greenberg	*Merchandising*	Morton H. Friedman	*Hit or Miss Division*
Anna Goldstein Levitman	*Merchandising*	David Kaplan	*Sales/Operations*
Leo Michelson	*Merchandising*	George Mover	*Regional Manager*
Theodore Schoenfeld	*Merchandising*	Warner Strauss	*Distribution Services*
Malcolm L. Sherman	*Merchandising*	J. Gerald Sutton	*Corporate Personnel*

Secretary Newton A. Lane

Assistant Vice Presidents

Gerald Davis	*Merchandising*	Hershel Denker	*Business Planning*
Ronald Hirshberg	*Merchandising*	George Freeman	*Staff/Finance*
Irving Lief	*Merchandising*	John Johnson	*Controller*
William Smith	*Merchandising*	Richard Johnson	*Construction*
Robert Alger	*Regional Manager*	Randolph L. Kruger	*Administrative Services*
L. R. Bennett	*Regional Manager*	Norman Lenox	*Disbursements*
David Goldman	*Regional Manager*	William McCabe	*Real Estate*
Rudolph Hunter	*Regional Manager*	J. Leonard Schatz	*Market Development*
John F. McGowan	*Regional Manager*	Robert Shedd	*Finance*
Leonard S. Oppenheimer	*Regional Manager*	Lee A. Silver	*Sales/Operations*
		Herbert Zarkin	*Sales Promotion and Advertising*

Transfer Agents—Common Stock
State Street Bank and Trust Company
Boston, Massachusetts
Irving Trust Company
New York, New York

Registrars—Common Stock
The First National Bank of Boston
Boston, Massachusetts
The Chase Manhattan Bank
New York, New York

Trustee—Convertible Subordinated Debentures
First National City Bank
New York, New York

Trustee—Sinking Fund Debentures
Bankers Trust Company
New York, New York

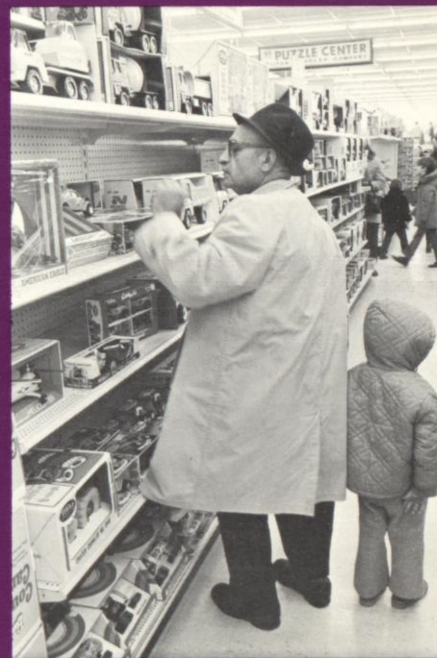
Listing
New York Stock Exchange
(Common Stock and Debentures)

Executive Offices
Framingham, Massachusetts

Auditors
Coopers & Lybrand

General Counsel
Nathanson & Rudofsky

Special Counsel
Ropes & Gray


PUZZLE CENTER

Zayre Corp., Framingham, Massachusetts 01701

Printed in U.S.A.